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# THE "AIR COACH" EXPERIMENT AND NATIONAL AIR TRANSPORT POLICY — PART II\*

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WE have pointed out that the present air coach service "experiment" involves more than merely experimentation with fares. It may foreshadow changes in our national civil aviation policy and a substantial rearrangement of our air transport pattern. Before considering these possibilities, it will be helpful to review the present state of our national air policy, and its background.

## IV. OUR NATIONAL POLICY FOR CIVIL AVIATION

It is not easy to define our national policy objectives with a satisfactory degree of certainty. Our only legislative pronouncement on the subject, the Declaration of Policy contained in the Civil Aeronautics Act,<sup>1</sup> is so all-embracing as to mean anything or everything to any person. The civil air transport system there envisaged is one "properly adapted to the present and future needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the national defense," designed to furnish "adequate, economical, and efficient service by air carriers at reasonable charges, without unjust discriminations, undue preferences or advantages, or unfair or destructive competitive practices," and with "competition to the extent necessary to assure the sound development of an air-transportation system properly adapted to the needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the national defense."

And in connection with this section there must also be considered the "mail pay" or "subsidy" provision of the Act,<sup>2</sup> which is itself also an important statement of very general policy. It is there stated that in determining the amount of money to be paid by the Federal Government to an air carrier for the transportation of mail, the Civil Aeronautics Board shall take into consideration the carrier's need "for compen-

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\* Continued from Winter issue of JOURNAL, 17 J. AIR L. & COM. 1 (1950). The opinions expressed in this article are those of the writers and are not to be attributed to the Civil Aeronautics Board.

<sup>1</sup> 52 Stat. 980, Sec. 2; 49 U.S.C. 402.

<sup>2</sup> *Ibid.*, Sec. 406(b); 49 U.S.C. 486(b).

sation for the transportation of mail sufficient for the performance of such service, and, together with all other revenue of the air carrier, to enable such air carrier under honest, economical and efficient management, to maintain and continue the development of air transportation to the extent and of the character and quality required for the commerce of the United States, the Postal Service, and the national defense."

It is not surprising that there has been a considerable diversity of opinion as to the proper implementation of such broad legislative standards. Obviously, an air transport system properly adapted to the present and future needs of foreign and domestic commerce will mean one thing to one person and something else to another. A system designed to meet the needs of the postal service may be a system more or less extensive than one required to serve foreign and domestic commerce, and a system suited primarily to national defense needs may be considerably different from either. And what is the meaning of "competition to the extent necessary to insure the development of an air transportation system properly adapted to the needs of the foreign and domestic commerce," etc.? <sup>3</sup>

The search for a civil air transport policy which can more nearly be expressed in terms of common understanding has gone on almost continuously since the passage of the Civil Aeronautics Act. Various Congressional committees, Presidential commissions, executive agencies and private organizations and individuals have wrestled with the problem from time to time, and the effort continues right down to the present. The very fact that an answer has been sought so extensively seems to indicate that we really have no firm, settled policy at this time, and perhaps in the present troubled state of the world this is just as well. Under present conditions, the needs of national defense and interstate and foreign commerce in relation to air transport may change overnight.

But in order to evaluate the worth and effect of the current experimentation in "air coach" transportation, it would seem essential that we attempt to reach some basis of common understanding with respect to policy objectives, or possibly to consider alternative concepts and examine the experiment on that basis. A brief review of certain expressions of policy during the interval since the origin of the Civil Aeronautics Act should be helpful.

#### *Federal Aviation Commission*

A good place to start should be with the Federal Aviation Commission appointed by President Roosevelt pursuant to the Air Mail Act of 1934.<sup>4</sup> That statute authorized the President to appoint a committee

<sup>3</sup> The interpretation of this phrase has been a particularly troublesome problem for the Civil Aeronautics Board. For a history of the Board's shifting position on "competition," see Westwood, *Choice of the Air Carrier for New Air Transport Routes*, 16 Geo. Wash. Law Review 159 (1948).

<sup>4</sup> 48 Stat. 195; 39 U.S.C. §§469 and 469s.

for the purposes of an immediate study and recommendations for "a broad policy covering all phases of aviation and the relation of the United States thereto."

In an editorial published at the time, Dr. Fred Fagg, Jr., now President of the University of Southern California, then Professor of Law at Northwestern University and soon to become legal advisor to the Commission, reframed the question to which the Commission was supposed to find an answer as follows: Is the airline business to be brought to maturity under the Adam Smith conception of competition or under the guidance of the "newer" economics?<sup>5</sup>

The Commission had little doubt as to the kind of civil air transport system to be encouraged and developed. Its first recommendation read as follows:

"It should be the policy of the United States to maintain a position of world leadership in air transport, and to lend such aid as may be necessary to insure that the most modern and efficient equipment and methods shall be applied on American domestic and foreign airlines."<sup>6</sup>

Nor was there any question about the use of subsidies. The third recommendation read:

"The carriage of mail should be put on a commercial basis, with payments to lines within the amount received by the Post Office. Whatever additional sums are for the time being necessary to maintain and develop adequate transport services should be allocated specifically to that purpose by the Government."<sup>7</sup>

The report went on to recommend the establishment of a permanent commission, appointed by the President, which would have broad general supervisory and regulatory powers over both domestic and foreign air transport.

The Commission report was transmitted to Congress on January 21, 1935, and the entire recommended program was embodied in a bill, H. R. 5174, introduced on the same day by Mr. Lea of California. Three and a half years and several bills later, during which time there had been almost constant Congressional hearings, the Civil Aeronautics Act was passed. At several times during the hearings and debates over the various proposed bills and amendments, sponsors stated that financial aid to air transportation by the Government was to be a temporary affair, to last only until the infant industry could walk on its own legs, but nowhere was this concept set forth in the Act.

If the language used in the Declaration of Policy — "the encouragement and development of an air transportation system properly adapted to the present and future needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the national defense"

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<sup>5</sup> 5 J. AIR L. 540 (1934).

<sup>6</sup> Report of the Federal Aviation Commission (January, 1935) p. 9. See 6 J. AIR L. 163 (1935).

<sup>7</sup> *Ibid.*

— is intended to mean what was so boldly expressed in the Commission report, then Congress envisaged an air transportation system which would lead the world both domestically and internationally, to be supported with Government funds to the extent necessary to insure such leadership and the utilization of the most modern and efficient equipment and methods.

*Board of Investigation and Research*

No important questions as to national air transport policy were raised during the years between the passage of the Civil Aeronautics Act and the end of the war. We were preoccupied with other important matters, and, furthermore, most of the airlines were in no position to expand and in no great need of financial aid. Congress did, however, establish in 1940 a Board of Investigation and Research<sup>8</sup> which was to investigate and report on public aids to domestic transportation generally. In a report submitted to Congress on September 18, 1944,<sup>9</sup> this Board pointed out that the financial assistance provided by Section 406 (b) of the Civil Aeronautics Act would have a profound effect upon the kind, size, and type of our civil air transport system. The report quoted with approval portions of a letter addressed by the Civil Aeronautics Board to Senator Walter F. George in 1942,<sup>10</sup> in which the Board stated its position to the effect that in its view Congress had not intended to direct the Board to achieve national objectives wholly unrelated to the development of a sound air transportation system.<sup>11</sup>

The report further stated that specific recommendations would be premature, but remarked:

"It seems not unlikely that the future development of air transportation will be influenced to a significant extent by what Government policy regarding financial aid is to be. The progress of civil air transport could be accelerated to almost any extent by requisite Government expenditures."<sup>12</sup>

There were also quoted with approval excerpts from Civil Aeronautics Board Member Harlee Branch's separate opinion in a mail-rate proceeding<sup>13</sup> in which he persuasively argued that financial aid to the

<sup>8</sup> Transportation Act of 1940, Title III, Part I, Sec. 302 (a) (2); 54 Stat. 953.

<sup>9</sup> Public Aids to Domestic Transportation, H. Doc. 159, 79th Cong., 1st Sess. (1944).

<sup>10</sup> *Ibid.*, p. 464.

<sup>11</sup> "If the contrary interpretations were adopted, there would be no limit to the national defense projects which carriers might be expected to perform; and the required financial assistance from Post Office appropriations might well be multiplied many times. The Board does not understand that Congress intended to authorize the Board to require air carriers, for example, to build up a large reservoir of aircraft, personnel, equipment, and other facilities greatly in excess of the requirements of a civil air transportation system, to be held virtually in trust or on call for war air-transport purposes. Congress vested in the Board no power by which it might effect such a result, and in the absence thereof, the objective of such a reservoir of planes, equipment, and reserve personnel, and organization could be realized only through the voluntary co-operation of the carriers . . . It normally would not be possible to absorb such a reservoir of aircraft, equipment, and such an organization in a sound air transportation system."

<sup>12</sup> *Op. cit. supra*, n. 9, p. 465.

<sup>13</sup> Eastern Air Lines, Inc., Mail Rates, 3 C.A.B. 733, 761 (1942).

airlines should be based on a policy of promoting a financially self-sufficient air transport system composed of individually profitable airlines, receiving only a fair and reasonable compensatory rate for the carriage of mail.

Soon after the end of hostilities, however, due to over-optimism, revolutionary advancements in the aviation art, and a too-rapid expansion in routes and facilities, most of our certificated airlines, domestic and foreign, got into financial difficulties. Some were faced with bankruptcy, and almost all were in desperate need of working capital and capital funds to meet requirements for new postwar equipment.

It seemed that the broad statement of national policy objectives contained in the Civil Aeronautics Act needed a second look, and there was concern both in the White House and on Capitol Hill. This concern suddenly crystallized into action in the summer of 1947, when, within a period of a few weeks, the President took steps to have a coordinated statement of air policy prepared by the Executive Branch, and appointed a special committee to assist him "in formulating an integrated national aviation policy." At the same time a temporary "Congressional Aviation Policy Board" was set up by the 80th Congress with the same general objective.

#### *President's Air Policy Commission*

The President's Air Policy Commission was created on July 18, 1947.<sup>14</sup> The Commission submitted its report on January 1, 1948.<sup>15</sup> In discussing civil aviation it supported the concept of a self-sufficient air transport system,<sup>16</sup> but, somewhat inconsistently, also endorsed for

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<sup>14</sup> In his letter of appointment the President said in part: "There is an urgent need at this time for an evaluation of the course which the United States should follow in order to obtain, for itself and the world the greatest possible benefits from aviation.

"It is for these reasons . . . I am creating a temporary Air Policy Commission to make an objective inquiry into national aviation policies and problems, and to assist me in formulating an integrated national aviation policy . . .

"The Air Policy Commission should study, among other pertinent aspects of the problem, such questions as the current and future needs of American aviation, including commercial air transportation and the utilization of aircraft by the armed services; the nature, type, and extent of aircraft and air transportation industries that are desirable or essential to our national security and welfare; methods of encouraging needed developments in the aviation and air transportation industry; and improved organization and procedures of the Government that will assist it in handling aviation matters efficiently and in the public interest.

"The final recommendations of the Commission must, however, go beyond the limits of any one phase of aviation. They should be so broad in scope and purpose that they will assist in revising old policies and in framing new ones, and will serve as a guide for formulating a carefully considered national air policy."

<sup>15</sup> SURVIVAL IN THE AIR AGE, January 1, 1948. See 15 J. AIR L. & COM. 69 (1948).

<sup>16</sup> "We consider that direct Government financial aid to commercial airlines is fully justified on grounds of national security and economic welfare. We believe the air transport system of this country can, with such aid now, become self-supporting in the future. We are convinced that any impartial investigators of air transport would endorse the use of public funds to obtain such a sound air transport system. This means the continued granting of subsidies to airlines for an additional period." (p. 102.)

"Our major problem is to get [common carrier airlines] started once again up the ladder toward self-sufficiency." (p. 113.)

the most part the view that the civil air transport system should be inseparable from the military air arm, and as a reservoir of aircraft, personnel, equipment and other facilities to be drawn upon by the military in time of emergency. This seeming contradiction can be reconciled only on the basis that the Commission concluded that a civil air transport system composed of privately owned and managed airlines (strong, financially sound and self-sufficient) and operating as public utilities, would fit all the needs of Commerce, the postal service and the national defense.

*Congressional Aviation Policy Board*

The law establishing a temporary Congressional Aviation Policy Board became effective on July 30, 1947,<sup>17</sup> and after extensive hearings its report was submitted to Congress on March 1, 1948.<sup>18</sup> The first sentence of the report reads as follows:

"Within two years after cessation of hostilities in World War II, general concern over national security and the threatened bankruptcy of the aircraft industry and the civil air carriers of the United States, indicates necessity for review of national aviation policy by the Congress."

The Congressional group did not deal directly with the concept of an individually self-sufficient air transportation system, but laid more emphasis upon the national defense aspect. At the risk of oversimplification, and only for the purposes of discussion here, it may be said that the Congressional Board reached the following conclusions:

1. The Civil air transportation industry and the military air arms are indivisible and must fit into a single pattern.
2. National security requires a financially sound, efficient and modern air transport industry.
3. The country should have a large civil air fleet operating in foreign and domestic air commerce with safety and certainty, serving commerce and industry during peacetime while remaining available for immediate conversion to military use in an emergency.
4. Such a civil air fleet must be as large as possible commensurate with the budgetary limits of our economy.
5. This may best be effected by the stimulation of passenger, cargo and other air traffic.

The report listed as possible means of stimulation of traffic the carriage of all first-class mail by air at first-class rates when the movement of such mail could be appreciably expedited, the carriage of domestic air parcel post at experimental rates, and the extension to a 5-year basis of the feeder-line experiment. No attempt was made to estimate the desirable size of the civil air transport reservoir of potential

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<sup>17</sup> Public Law 287, 80th Congress; 61 Stat. 676. See 14 J. AIR L. & COM. 365 (1947).

<sup>18</sup> *National Aviation Policy*, Rep. No. 949, 80th Cong., 2nd Session, March 1, 1948. See 15 J. AIR L. & COM. 208 (1948).

logistic aircraft, because it had been impossible to secure an estimate of the requirements of the military from the Joint Chiefs of Staff.

The implications of this report and the broad outline of policy contained in it would lead directly to the conclusions that the assumption of the Civil Aeronautics Board in 1942 that Congress did not intend to direct the Board to achieve national objectives unrelated to the development of a sound air transportation system could no longer be supported, and that if military requirements were such that they could not be met by the available aircraft of a financially sound and self-sufficient civil air transport industry, then that industry would be expanded to the extent necessary to meet military requirements within "budgetary limits that can be supported by the American economy."

#### *ACC Statement of Air Policy*

Meanwhile, prior to the appointment of the Air Policy Commission, President Truman had requested that a statement of air policy be prepared and presented to him by the Air Coordinating Committee.<sup>19</sup>

This statement was prepared and presented to the President on August 1, 1947.<sup>20</sup> "The basic policies governing United States transport," said the Air Coordinating Committee, "are embodied in the Civil Aeronautics Act of 1938. The Civil Aeronautics Board in its decisions undertakes to apply policies derived from the Act rather than to create new policies." The Committee made no attempt to make more definitive the concept of civil air transport policy contained in the Declaration of Policy of the Civil Aeronautics Act, except as may be inferred from the following statement:

"Despite the high volume of traffic, air travel is still relatively expensive compared to other forms of transportation. Although improved service, comfort and speed increase business, present rates remain a limiting factor on the growth of traffic. The ultimate goal of government rate policy is inexpensive, mass air transportation provided by private carriers *which are financially sound and which can operate without subsidy.*" (Italics added.)

No emphasis was placed upon the development of civil air transportation as a potential transport reserve in time of emergency, the Committee merely stating that in time of war it must be possible to utilize the commercial air transport system to augment the military air transport services.

Since their publication, the conclusions and recommendations expressed in these reports have been widely considered and discussed,

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<sup>19</sup> An interdepartmental advisory and coordinating group consisting of one representative each from the Departments of State, Commerce, Air Forces, Navy, Post Office, and the Civil Aeronautics Board, with a representative of the Bureau of the Budget serving as a nonvoting member.

<sup>20</sup> A Statement of Certain Policies of the Executive Branch of the Government in the General Field of Aviation (August, 1947). See 14 J. AIR L. & COM. 366 (1947).



both in and out of the Government, but up to the present time no legislative expression of a more clearly defined national air policy has resulted.

Meanwhile, official exploration of the subject continues. The investigation of the airline industry instituted by the Senate Interstate and Foreign Commerce Committee early in 1949, under the able Chairmanship of Senator Edwin C. Johnson, is still under way, and will of necessity involve important policy considerations. In addition, President Truman has been concerned with the overall coordination of Federal programs in the various fields of transportation, and air transport policy is likewise an important element to be considered in any planning in this area.

### *Sawyer Report*

In connection with the latter project, the President on August 30, 1949, requested the Secretary of Commerce to outline "the major policy issues which need to be resolved at this time in order to achieve maximum effectiveness and consistency of Federal programs in the transportation field. The Secretary's report, which was submitted on December 1, 1949, was something more than a statement of issues, however, for, as the report pointed out, a future transportation program could best be considered if the issues were developed against a policy framework. Consequently, the Secretary's presentation developed certain concepts vitally related to civil air transport development. The Secretary stated that:

"The general position which this report advances is that if another type of carrier or another carrier of the same type can perform the service at a profit, it is entitled to the business and the carriers which are being protected should restrict themselves to operations in which they have a clear economic advantage. This general principle is set forth in the Transportation Act of 1940 as basic national transportation policy. An exception to this general principle applies in cases where certain relatively uneconomic services must be maintained because their continued existence is essential for national defense purposes."<sup>21</sup>

This view of national policy would call for the discontinuance of present protective regulation by the Civil Aeronautics Board designed to maximize revenues for the certificated air carriers. For example, it would be inconsistent with such a concept to impose economic restrictions upon the operations of irregular air carriers, rather than to permit them complete competitive freedom with all the certificated air lines, Government-aided or not.<sup>22</sup> In short, full freedom of opportunity should prevail, governed only by natural economic forces.

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<sup>21</sup> *Issues Involved in a Unified and Coordinated Federal Program for Transportation*, U.S. Dept. of Commerce, December 1, 1949, p. 74. See 17 J. AIR L. & COM. 93 (1950).

<sup>22</sup> *Ibid.*, p. 73.

In developing this concept, the Secretary took the position that the transportation system of this country, including air transportation, is now developed to the point that services which are not self-supporting should be abandoned, and the regulating authorities should encourage carriers under their jurisdiction to divest themselves of all marginal operations.<sup>23</sup>

Thus we have the range of policy concepts with respect to civil air transport. At one extreme there is the approach of the Congressional Aviation Policy Board, which seems to envisage a civil system integrated with defense requirements, and subsidized to the extent militarily necessary within the budgetary limits of our economy. Directly opposed is the position of the Secretary of Commerce, who advocates the abolition of Federal economic regulation and the substitution of free competition, including the elimination of all non-self-supporting services.

The significance of the air coach development must be measured largely in terms of the long-range air transport policy ultimately adopted.

#### V. THE TREND OF AIR COACH SERVICE

As presently operated, air coach service is a very attractive bargain. The opportunity to travel on our largest, fastest and most modern aircraft at reductions of 25 percent to 40 percent under standard fares, with intermediate stops reduced to a minimum, naturally has great consumer appeal. Such limitations on passenger service as exist — night-time departures, more crowded seating arrangements, etc. — are for many travelers completely outweighed by the price advantage which can be realized, and, in areas of heavy traffic flow, coach operations to date have clearly demonstrated this fact.

On high-density route segments, coach flights have operated at very high load factors, and have carried an impressive total of passengers. For example, Capital Airlines operated its New York-Chicago coach service in 1949 at an average load factor of 76.91 percent, carrying a total of 43,106 passengers.<sup>24</sup> For the year ending March 31, 1950, between Washington and Chicago the load factor was 78.25 percent, with 43,785 passengers. During the same period Northwest's New York-Seattle service operated at a load factor of 78.40 percent, and carried over 90,000 passengers.

Even allowing for diversion from regular services, which has been estimated on an overall basis to be approximately 31 percent, and on a fully allocated cost basis, such operations are substantially profitable, and hence appear, when considered apart, to rest upon an economically

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<sup>23</sup> *Ibid.*, pp. 83-4.

<sup>24</sup> It should be noted that during the first quarter of 1950, however, load factors fell to 56.17 percent, reflecting the additional competition of American Airlines, which entered the market for the first time on December 27, 1949.

sound foundation. It is becoming apparent, however, that only a limited number of route segments have a sufficiently high average traffic density to enable the achievement of such favorable results.

Using the same carriers as examples, Capital's New York-New Orleans service, operated in competition with Eastern Air Lines, attained a load factor of only approximately 43 percent through the first quarter of 1950, and Northwest's Chicago-Portland service was under 45 percent for the same period. Such figures represent a loss even at standard fares, and under present operating limitations these services show little promise of economic success. It would appear that on such routes even bargain rates will not attract sufficient traffic to produce the high load factors required to make a payload at reduced fares.

A similar situation exists with respect to other carriers. The trans-continental coach services of TWA and American between New York and Los Angeles, operating with Constellation and DC-6 aircraft, have to date consistently carried almost capacity loads. Eastern has achieved impressive operating results between New York and Miami. Over leaner routes, however, such as Kansas City-Los Angeles and New York-Atlanta, the figures are not encouraging.

In short, experience to date tends to confirm that air coach service, at least under present limitations, will be economically sound in and of itself only on the exceptionally heavy traffic routes. And even these routes can be assessed only in terms of the amount of duplicating competition which may exist between each of the pairs of cities.

The number of such heavily traveled segments is extremely limited, and there are practically none without existing duplicating competition. Air travel has traditionally been characterized by an extreme concentration of traffic at a relatively small number of stations. As was pointed out previously, the 10 largest airline stations account for almost 50 percent of the total domestic travel market. And in March, 1949, only 38 pairs of cities, out of a total of over 15,000 combinations, developed as many as 50 airline passengers per day in each direction.<sup>25</sup>

It should also be pointed out that on the very short-haul high-density segments, such as New York-Boston and New York-Washington, for example, it is unlikely that under present operating conditions coach service can be operated without severe disruption of earnings, for the production cost of all travel rises quickly as the length of haul is diminished. Possibly such short segments may be successfully operated as part of a long haul, but the short haul, in itself, will hardly be ready for coach fares until operating costs can be substantially reduced by some method as yet undiscovered.

It is thus immediately apparent that even assuming in substantial degree the generation of new air passengers as a result of the operation

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<sup>25</sup> A total of 24 of these principal pairs of cities already received scheduled air coach service as of July 1, 1950.

of coach services, there is a very definitely restricted area in which such operations can be expected to develop on a self-sufficient basis.

As was inevitable, however, the pressures for rapid expansion of coach services, from both the airlines and the public, have been great. Proposals have regularly been advanced to increase the number of schedules permitted, to use larger and faster aircraft, to activate new air-coach routes, to add additional points to present routes, and to liberalize the operating restrictions under which the service has been conducted. To some extent these efforts have been successful, and the past few months have seen a continuous, gradual extension of coach operations.

Since the first of this year several important new coach routes have been authorized.<sup>26</sup> Additional points have also been added to present routes.<sup>27</sup> As of July 1, 1950, certificated air coach service was received by 32 domestic cities, including 16 out of the 20 leading traffic-generating points. See Exhibit 4.

#### *CAB Adherence to Coach Policy*

In other respects, however, the Civil Aeronautics Board has adhered fairly closely to its announced policy respecting limitations on the coach-service experiment. Proposals by various carriers to substitute newer and larger equipment for the DC-4s currently in use have been generally denied, and all presently operating coach flights are being conducted with high-density DC-4 equipment, with the exception of the transcontinental services of TWA and American, where Constellation and DC-6 aircraft, respectively, are being used. Likewise, the limitation of departures to off-peak hours has also been maintained for the most part, the only recent deviation from this restriction having been in connection with the services of United and Western between Los Angeles and San Francisco. In that case the Board, because of the particular competitive situation resulting from intensive operations by intrastate carriers, permitted not only departures at peak hours, but also the operation of multiple schedules. Both of the carriers presently operate four round trips per day between these points, departing at convenient hours throughout the day.

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<sup>26</sup> Capital has added a Washington-Chicago nonstop service; Eastern and National have both been authorized to operate a second New York-Miami schedule via Washington, Jacksonville and West Palm Beach; Eastern has added a New York-Houston service via Washington, Atlanta and New Orleans, as well as a Detroit-Miami service via Cleveland, Charlotte, Atlanta and Tampa; and both United and Western now operate local coach service on a nonstop basis between San Francisco and Los Angeles. United has also received permission to operate a competitive service to Western between Los Angeles and Portland-Seattle, via San Francisco. Recently an application by Chicago and Southern to establish a route between Chicago and New Orleans was also approved.

<sup>27</sup> Delta now operates its Chicago-Miami service via Cincinnati, Atlanta and Jacksonville, and the latter 2 cities have likewise been added to Eastern's operation between the same terminals. Great Falls, Montana, is a recently authorized stop on Northwest's New York-Seattle coach schedule.

Exhibit 4—DOMESTIC CITIES SERVED BY AIR COACH FLIGHTS  
OF CERTIFICATED CARRIERS ON JULY 1, 1950

National Ranking March 1949	City	Origination and Destination Passengers		
		March 1948	September 1948	March 1949
72	Albuquerque	4,275	5,200	5,541
67	Amarillo	4,439	5,731	5,798
14	Atlanta	26,290	30,676	34,023
93	Billings	2,665	3,244	3,070
42	Birmingham	8,123	9,827	10,022
48	Charlotte	6,612	7,805	8,858
2	Chicago	104,094	137,940	133,635
21	Cincinnati	16,632	23,288	21,388
9	Cleveland	34,230	44,787	40,769
8	Detroit	50,457	64,097	55,231
130	Great Falls	1,536	2,041	1,858
17	Houston	23,494	26,501	28,813
33	Jacksonville	10,677	10,317	13,708
12	Kansas City	24,824	30,841	35,207
52	Knoxville	6,839	9,386	8,280
4	Los Angeles	71,797	92,432	80,292
7	Miami	60,300	27,676	62,815
30	Milwaukee	12,388	16,264	14,607
16	Minneapolis-St. Paul	26,682	28,915	29,706
86	Mobile	2,475	3,876	3,860
18	New Orleans	18,464	21,050	25,851
1	New York-Newark	215,699	301,896	273,722
35	Phoenix	11,439	8,974	13,234
11	Pittsburgh	32,810	44,524	38,079
20	Portland	22,156	27,600	22,575
6	San Francisco-			
	Oakland	62,398	81,708	65,988
15	Seattle	31,686	38,427	31,265
49	Spokane	7,682	8,253	8,623
25	Tampa	13,461	8,088	17,952
3	Washington	70,016	87,820	89,109
58	W. Palm Beach	6,135	1,070	7,706
55	Wichita	6,374	7,868	8,014

Source: C.A.B. Surveys.

Other than the above-mentioned exception, schedules have been held to one round trip per day over each route. In a sense, however, this limitation is more theoretical than real, since no supervision has been exercised over the number of "extra sections" operated on an individual schedule, with the result that the number of *trips* operated on a single day may be many more than the one *schedule* authorized. Over certain routes, the amount of extra section mileage operated has consistently exceeded 50 percent of the total air coach service flown.

In summary, it is evident that while the Board approach continues to be conservative, the expansion of coach operations during recent months has been both continuous and significant. The effect is particularly marked in some areas, and the long-range problems involved are already becoming evident. As it is presently the operator of the most extensive air coach services, an examination of Eastern Air Lines' current situation may be rewarding.

Eastern currently provides air service to some 72 domestic points. Out of this number, only 15 are served on air coach schedules. *But included among these air coach points are 10 of Eastern's 15 principal traffic centers.* And with the exception of the New York-Boston and St. Louis-Washington segments, its coach services blanket practically every important city combination on its system. Several of these points are included on different routes, and thus have more than one coach schedule per day, and extra sections are operated as traffic demands.<sup>28</sup> Either directly or through connecting services, coach flights are available for all or portions of the journeys between most of the pairs of cities on its entire system.

As a result, there is subjected to possible diversion to the lower priced coach service a large portion of the traffic of Eastern and the carriers competing with it, and the general effect may very well amount to an important step in the direction of making the 4-cent coach fare the basic level.

This is true not only for Eastern, but for all the other carriers in Eastern's competitive area. The problems which are raised with respect to competitive services are illustrated by the case of Chicago and Southern, with reference to Eastern's connecting coach service between Chicago and Detroit, on the one hand, and Houston and New Orleans on the other. In protesting to the Civil Aeronautics Board against the establishment of this service, Chicago and Southern said:

"The overnight [standard-fare] service which C.&S. presently operates between [the same] cities can scarcely be termed 'luxurious.' The flights operate with DC-3 equipment, whereas Eastern's coach service will operate with DC-4's. The Chicago and Southern flights will carry but one stewardess, whereas Eastern's coach service presumably will have one steward. Chicago and Southern's flights like Eastern's, will depart late at night and will arrive in the early morning hours. Many of the C.&S. passengers, like Eastern's, will make on-line connections en route. Neither the C.&S. flights nor Eastern's will provide meal service. The reservation procedures applicable to the flights of both carriers are substantially identical.

"In other words, there is no significant distinction between Chicago and Southern's overnight flights between its domestic terminals and the so-called 'aircoach' services which Eastern proposes to operate between the same cities. From the point of view of the passenger, the only distinction of significance will be the fare and the fact that the so-called 'coach' service will be operating with the larger, more commodious DC-4 equipment."

In such a situation, the affected carrier must compete to survive, and a chain reaction is begun which accelerates the downward trend in passenger fares over a wide area. If allowed to proceed unchecked, the eventual result must necessarily be a basic fare structure at the

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<sup>28</sup> In March, 1950, Eastern operated an average of 2.3 extra sections in each direction per day on its New York-Miami nonstop coach schedule.

4-cent coach level, with possibly an overlay of limited "super-luxury" service at a premium rate.

This possibility is of course enthusiastically encouraged by the consuming public. The average traveler has a very limited appreciation of the important economic factors involved, and is naturally desirous of buying his transportation at "bargain" rates wherever possible. In recent months newspaper and magazine articles supporting the broadest extension of air coach operations have appeared with increasing frequency,<sup>29</sup> and the C.A.B. has received formal complaints from smaller cities not now receiving such service requesting that the airlines serving them be required to provide it.

#### *Industry Not Ready for Basic 4-Cent Fare*

Unfortunately, however, there is another side to the picture, and the fact is that the airline industry is far from ready for a basic 4-cent fare. For example, in 1949 the domestic passenger traffic of Eastern Airlines accounted for approximately \$32,300,000 in revenue after direct flying costs, which was available for ground and indirect costs, and profits. Assuming a 4-cent yield on this traffic, however, it would have been necessary that Eastern carry a passenger volume of some 2½ billion passenger-miles, or an increase of over 150 percent over the actual 1949 volume of slightly less than a billion passenger-miles, to produce the same contribution to overhead. Some increase in load factors might be assumed, which would reduce direct costs, but, on the other hand, overhead would probably be at least doubled as a result of the tremendously increased volume, which would require the production of an additional 2 billion passenger-miles to meet, in turn increasing overhead, etc. The progression is almost geometric in character, and results in a passenger volume of very impressive proportions.

On the same basis, the domestic trunk-line system as a whole would have had to produce almost 12 billion passenger-miles in 1949 at a 4-cent yield to realize the same dollar amount after direct flying costs as was actually reported. Making no allowance whatever for increased overhead, this alone would require a volume increase of almost 100 percent.

The achievement of the passenger volume necessary for the airlines to hold their own under a 4-cent fare structure appears very problematical under present conditions. It is easy to be misled by travel figures into an assumption that there is an untapped potential for low-cost air service of almost unlimited proportions. Upon closer examination, however, the prospects are not quite so tremendous.

#### *Potential Market for Low-Cost Air Service*

In 1949 intercity air, rail and bus passenger travel amounted to about 57 billion passenger-miles. Surface travel is, on the whole, about

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<sup>29</sup> See, e.g., "Air Travel Can Be Inexpensive," Consumer Reports, June, 1950.

17 percent more circuitous than that via air, and after adjusting for this factor the total common-carrier passenger market in 1949 was approximately 50 billion air passenger-miles. Airline and pullman travel accounted for about 30 percent of this total, and it is the balance of 70 percent, or 35 billion passenger-miles, represented by rail coach and bus traffic that is usually cited as the great potential for air travel at coach rates.

It must be remembered, however, that the average journey by bus is under 50 miles in length, and by rail coach under 100 miles, as compared with over 400 miles via airline and pullman. Further, it is generally true that at the present time air travel offers little in the way of advantages to the traveler journeying a distance of less than 100 miles.<sup>30</sup> In addition, while a 4-cent airline fare would be competitive with rail-coach operations, its effect would be severely limited in competition with the present 2-cent bus fare level.

Taking all these factors into consideration, it is apparent that the potential air coach market represented by rail coach and bus travel is not the 35 billion passenger-miles it seems at first glance, but more probably is somewhere in the vicinity of 10 billion passenger-miles.

There are certain unknown elements to be considered, of course, such as newly generated travel and traffic diverted from private automobiles. But it seems clear that there is little prospect that the present market is of such proportions as to make possible the operation of air-coach services on other than a highly selective basis, except at the cost of drastically reduced net revenues, which under our present policy means proportionately increased government subsidies.

## VI. FUTURE AIR TRANSPORT PATTERN DEVELOPMENT

The broader question, of course, involves the direction of future civil air transport policy. Are we to move toward the widest feasible development of commercial air service, supported by Federal funds to whatever extent necessary? Or is the policy to be more in line with the concept advanced by the Secretary of Commerce, which envisions the ultimate elimination of those air services which are not economically self-sufficient under free competitive conditions?

As was pointed out above, it seems clear that the expansion of air coach service to the point where, in effect, it amounts to a substantial lowering of the basic fare structure will result in a very greatly increased amount of Federal subsidy, if air service is to continue to be provided to the same extent as is now available. In such case not only will it be necessary to provide mail compensation to the trunk lines to the extent increases in traffic fail to make up for the lowered yield, which in itself will be of staggering proportions, but, since passengers are already being carried at a tremendous loss by all of the feeder

<sup>30</sup> See "Effective Community Air Traffic Potential," Civil Aeronautics Administration, Dept. of Commerce, June, 1950.



operators, any reduction in passenger revenues for these lines will come directly from the taxpayers' pockets.<sup>31</sup>

It is of course within the province of the Congress to provide governmental support on such a scale if it is deemed to be in the national interest. There is no question but that a general reduction in fares to the coach level would result in a great and rapid expansion in planes, equipment and personnel, and a consequent increase in military reserve value. It would, however, postpone for many years to come the likelihood that any sizable segment of the industry could achieve financial self-sufficiency, and for most of the carriers, result in permanent government subsidization.

On the other hand, the withdrawal of all Federal support, as suggested by the Secretary of Commerce, would, if accompanied by a general fare reduction to coach levels, result in the complete elimination of most of our present commercial air service. It would mean the wholesale disappearance of all of the feeder lines and many of our smaller trunks, and a drastic reduction in the services of those remaining. Even at present yield levels, the curtailment in operations would be most severe.

The extent of government financial support, which is in final analysis a subsidy to the users of air transport service, has received much critical attention during the past 2 years. Many responsible persons feel that the subsidy is already too high; others believe that a fair and objective appraisal will show that it is generally overstated, and in any case, entirely justified. As a result of the very considerable divergence of views, however, there has developed a quite general insistence that steps be taken to separate so-called "compensatory" mail pay and outright subsidy, in order that the extent of subsidy may be fairly appraised and its worth evaluated.

Such a task, if undertaken, promises to be complicated and time consuming. In an approach to the problem, however, Senator Edwin C. Johnson, Chairman of the Senate group currently investigating airline finances, has given a very interesting indication of the extent to which our present airline services fall short of economic self-sufficiency.

In testimony before the Senate Appropriations Committee on May 5, 1950, Senator Johnson presented the results of a preliminary examination of airline subsidies.<sup>32</sup> Using an approach which is based upon admittedly unrefined methods and formulas, but which superficially, at least, appears to be conservative, he concluded that for the fiscal year 1949, Federal mail payments to the domestic airlines represented some 26 million dollars of "compensatory" pay and 32 millions

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<sup>31</sup> There is presently pending before the C.A.B. an application by Bonanza Air Lines, a feeder carrier, to inaugurate coach-fare service between Reno and Las Vegas, Nevada.

<sup>32</sup> Interim Report on Separation of Air Mail Pay from Subsidy, 17 J. AIR L. & COM. 333 (1950).

of subsidy, and that the latter figure included government support, in varying amounts, of airline services to some 330 cities in the present system, or over 75 percent of our airline communities.

*Present Air Services Heavily Dependent on Subsidy*

Although, as Senator Johnson stated, these figures are only indicative and of limited value, they do serve to point up the extent to which our present air services are dependent upon government support for their existence. While no allocation formulas have as yet been developed by means of which the profitability of an individual station to an individual airline can be conclusively determined, it seems fair to state, upon the basis of such studies and expert opinions as are available, that at the very minimum fully one-half of our present airline stations do not pay their own way, even under present yields. Given a drastic fare reduction and the elimination of government support, our air transport system would shrink to a handful of routes between a score of our largest cities.

To elaborate a little further, let us examine an individual domestic airline system — for example, Trans World Airlines. TWA is one of our large transcontinental carriers, serving some 55 communities representing a fair cross section of our cities, from the large to the small. In 1949 it carried about 1,400,000 domestic passengers, and had non-mail revenues of some \$58 million. With mail pay at the rate of 65.1 cents per ton-mile, net operating income was approximately \$2.5 million.<sup>33</sup>

As is the case with all our airlines, a few heavily traveled segments produced sufficient profits to enable TWA to operate the rest of its system, and in its case, to provide a small overall margin of earnings. In other words, the "fat" supports the "lean."

Only a relative few of TWA's domestic route segments produced in 1949 a passenger traffic volume of as many as 20 passengers a day in each direction. A handful produced much more than that. But using that figure as a breaking point, and constructing a theoretical route pattern from the segments producing not less than that volume, we arrive at a system serving but *seven* of the 55 cities in TWA's present pattern. This system would extend from New York to San Francisco, and include the intermediate points of Pittsburgh, Chicago, St. Louis, Kansas City and Los Angeles. In 1949 the route segments included in this service pattern *produced approximately 50 percent* of TWA's total domestic nonmail revenues.

These are the routes which could probably be operated profitably on a freely competitive basis under a basic fare at the 4-cent coach

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<sup>33</sup> Amounting to 2.24 cents per revenue ton-mile. A reduction of but 1 cent in the 1949 passenger yield of 5.68 cents would have changed this profit margin into a loss of about 5.5 cents per revenue ton-mile. This underscores the extreme sensitivity of airline finances with respect to fare adjustments.

level. If TWA continued to operate the "lean" routes, it would soon die from attrition.

At present yields, a number of additional segments probably produce at least break-even revenues. For illustrative purposes, let us assume that these include all segments producing as many as 5 passengers in each direction per day during 1949. This would add some 18 additional cities to our theoretical routes, making a system total of 25 points.

This leaves 30 of TWA's present cities from which their service would be withdrawn under the freely competitive air transport system suggested by the Secretary of Commerce. These points are undoubtedly served at a loss by TWA under present passenger fares, and they receive air service only as a result of the government-aided public utility concept of the airline industry.

What is true of an individual airline is true of the air transport system as a whole. A large proportion of our present service is made possible only through government support and regulation. Even at present yields the cost of that support is not small, but progress toward self-sufficiency has been made, and under sound regulatory policies will continue. But if the trend toward coach fares is allowed to grow unchecked to the point where the basic fare structure is substantially reduced, then it seems clear that progress toward economic stability will be reversed, and government funds will be needed on a larger and longer basis if our airline system is to be maintained in its present form.

## VII. CONCLUSION

We have not sought in this discussion to expound any theories or provide answers to any questions. The objective has been merely to suggest some of the problems presented by the so-called air coach service experiment, and if in some measure we have helped to focus thinking on these problems our purpose has been achieved.

One thing seems self-evident. If we are drifting into a long-term policy whereby, through government support, air transportation is to be permanently furnished to the user below cost, purely as a public service, then the taxpayers of the country should be clearly informed, to the end that they may determine whether the benefit is worth the expenditure involved. It should not be "just allowed to happen" as a result of so-called government experimentation.